

# GENERAL FUND REVENUE ESTIMATES

## Overview

For 2004-2005, Adopted General Fund revenue estimates (excluding fund balance) total \$656.2 million; representing a very slight (2.8%) increase from the 2003-2004 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$786.3 million, which is approximately 1% above the prior year level.

Estimates for the 2004-2005 beginning fund balance and for over 400 separate General Fund revenue accounts were formulated initially in the 2005-2009 General Fund Five-Year Forecast released in March 2004. These estimates have since been reviewed and revised as appropriate based on additional information that became available since the release of the Forecast.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2003-2004 based on year-to-date activity; and an estimate for the increase or decrease in activity or receipts anticipated for 2004-2005. Each source of revenue is influenced by different factors, which are both external (outside of the City's control) and internal.

Revenue estimates for 2004-2005 are summarized below and discussed in detail in the material that follows.

| Revenue Category                  | 2002-2003<br>Actuals | 2003-2004<br>Adopted | 2004-2005<br>Forecast | 2004-2005<br>Adopted | %<br>Change | % of<br>Total |
|-----------------------------------|----------------------|----------------------|-----------------------|----------------------|-------------|---------------|
| Property Tax                      | 93,592,099           | 92,438,000           | 97,915,000            | 97,915,000           | 5.9%        | 12.5%         |
| Sales Tax                         | 127,456,727          | 128,818,000          | 128,488,000           | 128,488,000          | (0.3%)      | 16.3%         |
| Transient Occupancy Tax           | 5,800,000            | 6,718,500            | 5,845,620             | 5,845,620            | (13.0%)     | 0.7%          |
| Franchise Fees                    | 32,092,363           | 32,406,000           | 31,672,000            | 32,162,000           | (0.8%)      | 4.1%          |
| Utility Taxes                     | 65,784,892           | 66,979,000           | 63,613,000            | 64,803,600           | (3.2%)      | 8.2%          |
| Licenses and Permits              | 61,406,732           | 66,742,685           | 60,668,481            | 70,054,677           | 5.0%        | 8.9%          |
| Fines and Forfeitures             | 12,253,993           | 12,734,000           | 12,475,000            | 13,371,471           | 5.0%        | 1.7%          |
| Rev. from Money and Property      | 11,974,835           | 9,732,500            | 7,174,163             | 8,474,163            | (12.9%)     | 1.1%          |
| Rev. from Local Agencies          | 43,008,504           | 39,520,530           | 41,784,828            | 42,147,901           | 6.6%        | 5.4%          |
| Rev. from State Government        | 60,808,075           | 58,248,626           | 58,668,706            | 59,003,527           | 1.3%        | 7.5%          |
| Rev. from Federal Government      | 2,290,812            | 1,026,904            | 199,500               | 5,815,690            | 466.3%      | 0.7%          |
| Departmental Charges              | 22,844,760           | 24,974,477           | 25,589,293            | 26,976,779           | 8.0%        | 3.4%          |
| Other Revenue                     | 11,864,674           | 11,816,110           | 20,001,751            | 23,688,273           | 100.5%      | 3.0%          |
| Transfers and Reimbursements      | 92,335,646           | 86,035,070           | 70,020,645            | 77,482,420           | (9.9%)      | 9.9%          |
| <b>Subtotal</b>                   | <b>643,514,112</b>   | <b>638,190,402</b>   | <b>624,115,987</b>    | <b>656,229,121</b>   | <b>2.8%</b> | <b>83.4%</b>  |
| Fund Balance-Carryover*           | 159,572,777          | 140,675,984          | 33,000,000            | 130,104,699          | (7.5%)      | 16.6%         |
| <b>Total General Fund Sources</b> | <b>803,086,889</b>   | <b>778,866,386</b>   | <b>657,115,987</b>    | <b>786,333,820</b>   | <b>1.0%</b> | <b>100.0%</b> |

\* The Fund Balance figure does not include the Reserve for Encumbrances.

## Overview (Cont'd.)

### Are We at the “Bottom”?

One of the most significant challenges the City faced in formulating a budget for the coming year was projecting the condition of the local economy over the next 15 months. Recent reports indicate that an economic recovery, albeit a mild one, has been underway at the national level for some time. But, the Bay Area, and Silicon Valley in particular, are clearly lagging behind that recovery. Unemployment is still high. Wage and salary job losses continue, with over 230,000 jobs lost since the year 2000, many of them perhaps permanently. In addition, it also continues to be unclear what kind of impact local governments will be forced to endure as the result of State budget balancing actions.

The only bright side is that there are definite indications that the precipitous slide in revenues appears to have slowed, leading to the hope that we may be near, or at, the bottom of this prolonged economic downturn. General Sales Tax quarterly receipts recently experienced slight growth after dropping for ten consecutive quarters. Other economically sensitive revenues, however, remain stubbornly flat or continue to fall. The question that still remains to be answered is how long we will languish at this bottom before we see the return of real economic growth.

### ***Consumer Confidence***

Nationally, as we entered the final budget strategy and preparation process, the continuing doubts about the future of the economy, and the uncertainty of sustainability of this recovery, were reflected in the weak state of consumer confidence. After a sharp decline in February, consumer confidence was relatively flat in March. According to The

Conference Board, consumer optimism about future conditions, as of that report, were showing definite signs of wavering, with fewer consumers expecting that business conditions will improve in the next six months. Strangely, though, recent information indicated that confidence in this Valley was remaining surprisingly high. A poll by the Survey and Policy Research Institute conducted in the Spring indicated that at a time when people in the rest of the State and nation were growing more anxious, the Bay Area was the only place in California where confidence rose.

### ***Job Losses and Unemployment***

*“The Bay Area in the past year has actually lost more jobs than the entire state, meaning that the rest of the state has added jobs even as this region continues to lose them.”*

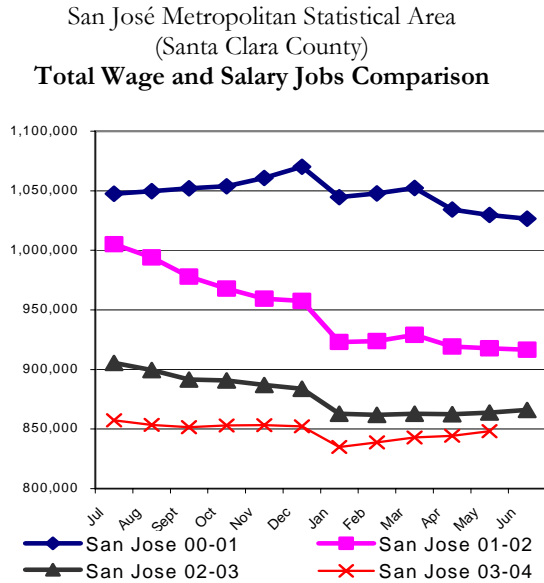
- MBIA MuniServices October 2003 economic report

As we have consistently stated, we believe the employment situation in the Valley is the single most important factor in judging whether, or when, the economy may be close to taking a positive turn. As a result, wage and salary job gains/losses and the unemployment rate are the two sources of data to which we pay the closest attention as indicators of Silicon Valley’s economic health. Unfortunately, the performance late last fiscal year of those two indicators did not support the hoped for conclusion that the local economy was on the cusp of an immediate uptick. In fact, they indicated that the City was still suffering the consequences of a weak local economy with no apparent rebound in the future.

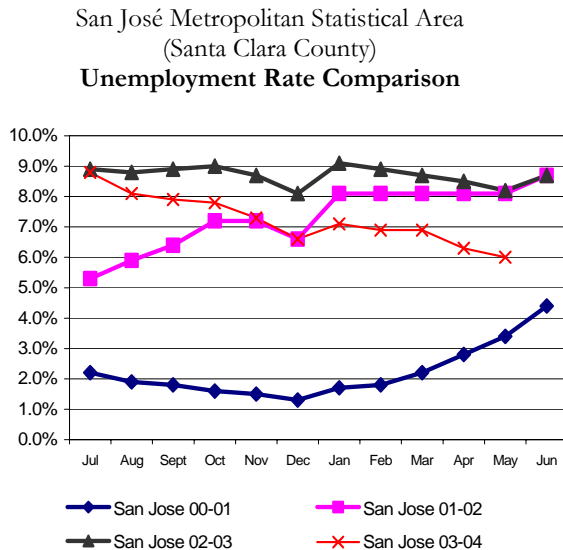
## Overview (Cont'd.)

### Are We at the "Bottom"? (Cont'd.)

#### *Job Losses and Unemployment (Cont'd.)*



While unemployment has begun trending down from its peak last year (9.1%), it still remains at an uncomfortably high 6.0% in the most recent figures, well above both the State and national averages.



Since last July, Silicon Valley has lost approximately 9,000 wage and salary jobs. Although this is significantly better than the more than 41,000 jobs lost during the same period last year, this loss occurred during a time when the State as a whole actually saw total jobs increase. While a leveling out of the downward slide is welcome, in our view, the valley will need a series of consistent month-to-month increases in jobs for a local economic recovery to take hold.

Based on recent trends, substantial job growth does not seem likely in the immediate future. In fact, the Bay Area, and San Jose in particular, have been identified in a University of California, Berkeley study as being highly susceptible to outsourcing of jobs.

#### ***State Budget Problems***

As we are all aware, the State continues to face a significant budget problem. The strategy used to balance last year's budget contained large elements of one-time actions, and guaranteed that the State would face a huge shortfall going into the 2004-2005 fiscal year.

The recall of Governor Davis and election of a new governor has obviously changed the nature of the debate tremendously. Governor Schwarzenegger appears determined to bring a structural fix to the budget problems and reductions to local government revenues appear to be a certain part of the new governor's strategy to balance the budget. Unfortunately, the Governor's proposed budget, issued in January, contained proposals that would reduce local government revenues statewide by \$1.3 billion, and would cost the City approximately \$10 million. Since that time, a number of other variations on the theme of reducing local government revenues have been introduced, many of which would

## Overview (Cont'd.)

### Are We at the “Bottom”? (Cont'd.)

#### *State Budget Problems (Cont'd.)*

cost the City even more than the Governor's proposal. What seems certain is that actions from the State will negatively impact the City's revenues, and the magnitude of that impact will not be known for some time. As a result, per City Council direction, a contingency plan has also been incorporated into the Adopted Budget. This plan outlines proposals that would be recommended if additional balancing actions are needed due to State cuts, or any other reasons, primarily if labor negotiations result in compensation increases that exceed those assumed in our budget. The actions included in this contingency plan are very unpleasant to contemplate, and would heavily impact core public safety services, which we have attempted to preserve in the Adopted Budget plan. We, of course, sincerely hope that it will not be necessary to utilize the worst of these measures. The plan detail, prioritized by proposal, is included as a section in this document.

### 2004-2005 General Fund Revenue

As stated previously, given the fiscal uncertainty, the most significant challenge faced by the Administration in developing this budget was to project how a continued weakened economy would likely affect collections in the City's economically sensitive revenue categories (e.g., Property Tax, General Sales Tax, Transient Occupancy Tax, development-related revenue, etc.) Prior to 2001-2002, these revenues had experienced tremendous growth, benefiting from the nation's longest economic expansion in U.S. history and the strength of Silicon Valley's technology sector. During that period, the General Fund experienced average annual

growth of almost 8.0% due to the strong performance in these categories.

Through the first three quarters of 2003-2004, the economically sensitive revenue categories had continued the weak performance that has characterized the last two years. Fortunately, however, the 2003-2004 General Fund Adopted Budget revenue estimates were based on an assumption of continued economic problems. As a result, overall collections in the General Fund were performing only slightly below budgeted levels.

For 2004-2005, the major underlying assumption for the economically sensitive General Fund revenues is that declines in collections will level off, with no significant rebound expected during this period.

When analyzing the City's General Fund revenues, it is important to remember that only approximately half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are primarily driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they can act as a buffer during an economic slowdown, easing the impact of a drop in the economically sensitive categories.

### Revised General Fund Forecast

A number of the revenue estimates presented in the March Forecast were revised in the

## Overview (Cont'd.)

### Revised General Fund Forecast (Cont'd.)

Adopted Budget to reflect the latest information available. The net result of these revisions was an upward adjustment of \$7.7 million to the March Forecast total, from \$649.4 million to \$657.1 million. The key revisions were:

- The Proposition 172 Sales Tax estimate was decreased by \$284,000 based on the performance of the first two quarters of 2003-2004, and the assumption that annualized growth would be flat, down from the original Forecast growth level of 2%.
- The Licenses and Permits category estimate was decreased by \$542,000 due to uncertainty surrounding Disposal Facility Tax collections. BFI and Waste Management have taken issue with the removal of the Alternate Daily Cover exemption approved by the City Council last year. By agreement with the City Attorney's Office, BFI and Waste Management are paying amounts related to alternative daily cover into an escrow account, rather than the General Fund pending the outcome of this dispute. Anticipated Disposal Facility Tax collections, therefore, have been reduced.
- Revenue from the Use of Money and Property was adjusted slightly upward (\$14,000), reflecting a slight increase in interest income from Senior Staff Home Loans.
- The Revenue from Local Agencies estimate was increased \$1.2 million to reflect recent contractual agreements to provide animal services operations to

Cupertino, Los Gatos, and Saratoga (\$470,000), an increase in Enterprise Fund In-Lieu (\$374,000) based on updated calculations from the Environmental Services Department related to the Water Pollution Control Plant, and recognition of a Grant from the California Public Utilities Commission (\$294,000) to conduct a Silicon Valley Energy Collaborative Program with PG&E to foster cost-effective energy programs.

- Revenue from the State of California was decreased by \$26,000 due to lowered expectations related to reimbursement from the State for highway maintenance charges.
- The Departmental Charges estimate was decreased by \$28,000 based on lowered expectations related to Police Department fees and charges.
- The Other Revenue estimate was increased by \$7.3 million to reflect recent agreements approved by the City Council related to the Evergreen and Coyote Valley Specific Plans.
- The Transfers and Reimbursements category was increased to reflect a decrease in overhead (\$333,000), an increase in the amount to be reimbursed for administration of the Deferred Compensation Plan (\$7,000), an increase in transfers from the Vehicle Maintenance and Operations Fund (\$425,000), and an increase in transfers from the Park Yards Construction and Conveyance Tax Fund (\$32,000).

## GENERAL FUND REVENUE ESTIMATES

### Overview (Cont'd.)

#### Revised General Fund Forecast (Cont'd.)

The changes from the March Forecast were incorporated into the revised Forecast as summarized in the following chart, and represented a net increase of approximately \$7.7 million:

| <u>Category</u>                       | <u>Adjustment</u> |
|---------------------------------------|-------------------|
| Sales Tax                             | \$ (284,000)      |
| Licenses & Permits                    | (542,447)         |
| Use of Money & Property               | 13,800            |
| Rev. from Local Agencies              | 1,189,918         |
| Rev. from the State                   | (26,000)          |
| Departmental Charges                  | (27,727)          |
| Other Revenue                         | 7,261,707         |
| <u>Transfers &amp; Reimbursements</u> | <u>134,142</u>    |
| Total                                 | \$ 7,719,393      |

#### Changes from Forecast to Adopted Budget

From the Revised Forecast of \$657.1 million, additional resources totaling \$129.2 million were added to reach the adopted revenue estimate of \$786.3 million. The increase of \$129.2 million is detailed as follows: rebudgets from 2003-2004 (\$85.66 million); higher revenue estimates (\$32.11 million); and the liquidation of unspent 2002-2003 reserves and Fund Balance-Carryover (\$11.44 million).

The majority of the increase (\$85.7 million or 66.3%) was not revenue-related, rather the increase was generated from additional 2003-2004 Ending/2004-2005 Beginning Fund Balance related to rebudgeting projects from 2003-2004.

The largest revenue adjustments were an increase in transfers from other funds of \$7.5 million and the recognition of the Cardroom Business Tax (\$6.25 million) that is treated as a one-time revenue source for budgeting purposes. The remaining revenue estimate revisions were generally a result of adjustments to reimbursement amounts to fund a variety of local and State grant programs as well as transfers and reimbursements from other funds and agencies for (or generated from) specific augmentations described throughout this document.

The \$11.4 million change primarily reflects the use of \$10.0 million from the Reserve for 2004-2005 Deficit and additional funding of \$1.1 million from the Parks Construction and Conveyance Tax Funds to reflect the transfer of a portion of the excess collections from 2003-2004 that is budgeted as part of the Fund Balance-Carryover.

In general, revenue estimates included in the Adopted Budget are intended to be as exact as possible. The level of certainty of any revenue projection, particularly when made this far in advance of the actual collection period is, however, obviously less than 100%. As a rule, therefore, where great uncertainty exists concerning any particular revenue source, a degree of safety has been built into the estimate. As always, the 2004-2005 revenue estimates will need to be monitored closely throughout the year.

Following is a discussion by revenue category of the anticipated performance for 2004-2005. See the *General Fund Revenue Descriptions* at the end of this section for a description of selected General Fund revenue sources.

## GENERAL FUND REVENUE ESTIMATES

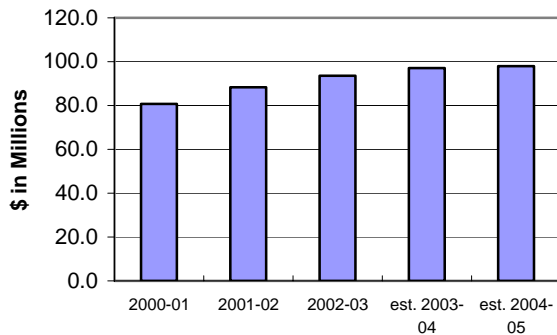
### PROPERTY TAX

|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$93,592,099 |
| 2003-2004 Adopted               | \$92,438,000 |
| 2004-2005 Forecast              | \$97,915,000 |
| 2004-2005 Adopted               | \$97,915,000 |
| Percent of General Fund         | 12.5%        |
| % Change from 2003-2004 Adopted | 5.9%         |

#### Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

#### Collection Trend:



#### Revenue Estimates:

Despite the economic downturn, City Property Tax collections have surprisingly sustained relatively healthy and steady growth over the past several years, primarily driven by a continued high volume of property turnovers and increases in home prices. In the recession of the early 1990s, many

property owners filed assessment appeals because the market values of properties were less than the assessed values. During the mid-1990s, these values were restored as market conditions improved. Conversely, in the past couple of years, the County Assessor began to process downward reassessments as the local economy became mired in a recession. If the local economy does not improve and the recession continues in Silicon Valley, we will likely see a drop in real estate prices and an associated increase in the number of downward assessments proactively performed by the County Assessor along with an increase in the number of appeals filed independently by property owners. Thus far, however, the majority of these reassessments have been in the industrial sector of the market and have impacted the Redevelopment Agency much more than the City. The residential market continues to defy logic as home prices rise even in the face of down economic times. Some experts have been predicting a housing bubble burst similar to the Tech bubble burst, however, we have not yet seen signs of any real slowdown in the residential market place.

The 2004-2005 Adopted Budget revenue estimates for Property Tax project a falloff in the growth levels constituting an overall increase of only 1.5% over the 2003-2004 Modified Budget level (\$96.4 million). This estimated growth rate is primarily driven by expected slight growth in Secured Property Tax, offset by further declines in Unsecured Property Tax and SB 813 receipts.

## **Property Tax (Cont'd.)**

The following section briefly describes the general assumptions used to develop Property Tax revenue estimates by major category.

### **Secured Property Tax**

Approximately 80% of the City's Property Tax revenue is generated from Current Secured Property Taxes. The schedule utilized by the County Assessor for these taxes is based on the value of property assessed on January 1, 2004 and is for the period of July 1, 2004 through June 30, 2005.

Based on preliminary information from the County, it is estimated that the Current Secured Property Tax growth rate for 2004-2005 will drop significantly from prior year levels, coming in at approximately 3.0%, bringing total receipts to \$81.8 million. It is unclear at this point, however, whether there is a high potential for next year across-the-board property tax rollbacks processed by the County Assessor that would negatively impact City receipts. The 2004-2005 growth rate of 3.0% is well below that anticipated for 2003-2004 (8.3%) as well as that actually achieved in 2002-2003 (7.9%), 2001-2002 (8.3%), 2000-2001 (9.1%), 1999-2000 (12.0%), 1998-1999 (11.1%), and 1997-1998 (6.5%).

### **Unsecured Property Tax**

The second largest revenue source in this category is Current and Prior Unsecured Property Taxes. Growth in this area is driven by increases in the value of personal property, typically equipment and machinery used by business and industry for manufacturing and production. Over the last decade, performance in this category has been volatile, ranging from a decrease of 12.7% in 1993-1994 to an increase of 15.0% in 1997-1998. The Adopted Operating Budget assumes another decrease (9.0%) in Unsecured Property Tax collections from anticipated

2003-2004 year-end receipts. This is a lower drop than that anticipated for 2003-2004 (down 13.3%), but larger than the 2002-2003 drop (down 2.0%) and a large change from the healthy growth experienced in the boom years: 2001-2002 (26.6%), 2000-2001 (13.0%), 1999-2000 (2.8%), 1998-1999 (8.3%), 1997-1998 (15.0%) and 1996-1997 (12.1%).

The projected 2004-2005 decline of 9.0% in Unsecured Property Tax reflects the continued impact of the recession. It should be noted, however, that this estimate does assume that the County Assessor will not be taking any preemptory actions to change the depreciation schedules used to value major business equipment items. Due to the volatility in collections for the past several years, this revenue source will require continued close monitoring in 2004-2005.

### **SB 813 Property Tax (Property Resale)**

The SB 813 Property Tax component represents the retroactive collection of taxation on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. It is estimated that collections in 2004-2005 will total \$4.1 million, a drop of 10.0% from the anticipated 2003-2004 year-end level of \$4.6 million and a significant decline from the 2002-2003 year-end actual level (\$5.1 million). Next year's drop assumes a moderate decline in property turnovers due to the impact of the recession as well as County budget cuts reducing the speed with which the property resales information can be processed.

### **Homeowner's Exemption**

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Collections of \$1.12 million are anticipated in 2003-2004. Revenues in this category are expected to remain flat in 2004-2005.



# GENERAL FUND REVENUE ESTIMATES

## SALES TAX

|                                 |               |
|---------------------------------|---------------|
| 2002-2003 Actual                | \$127,456,727 |
| 2003-2004 Adopted               | \$128,818,000 |
| 2004-2005 Forecast*             | \$128,488,000 |
| 2004-2005 Adopted               | \$128,488,000 |
| Percent of General Fund         | 16.3%         |
| % Change from 2003-2004 Adopted | (0.3%)        |

\* Revised downward by \$284,000 from the March Forecast, reflecting a slight change in the approximate annualized growth for Proposition 172 Sales Taxes.

### Major Categories:

- General Sales Tax
- Proposition 172 Half-Cent Sales Tax (Public Safety Sales Tax)

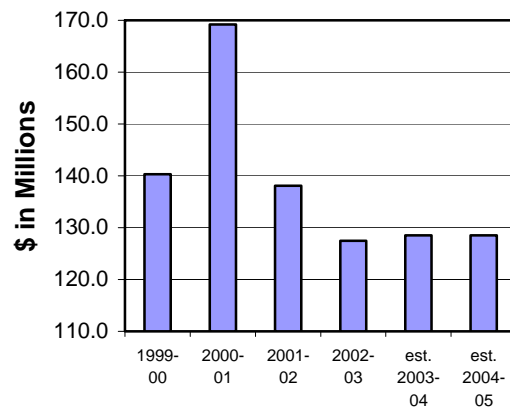
### Distribution of Sales Tax:

Sales Tax is the City's largest source of General Fund revenue. As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected statewide.

| Agency                               | Distribution Percentage |
|--------------------------------------|-------------------------|
| State of California                  | 5.50%                   |
| City of San José                     | 1.00%                   |
| Santa Clara County                   | 0.75%                   |
| Santa Clara County Transit District  | 0.50%                   |
| Public Safety Fund (Proposition 172) | 0.50%                   |
| Total Sales Tax                      | 8.25%                   |

As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), starting July 1, 2004, 0.25% of the City's one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (Primarily ERAF). This action is to last only for the life of the bonds (currently estimated at five years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts are tied to sales tax and because this action is considered a temporary property tax in lieu of sales tax.

### Collection Trend:



## GENERAL FUND REVENUE ESTIMATES

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### Revenue Estimates:

#### **General Sales Tax**

From the middle 1990s through 2000-2001, the City enjoyed very strong growth in Sales Tax collections, reflecting exceptionally favorable economic conditions within Silicon Valley as well as both state and nation-wide. Economic conditions have, of course, changed dramatically with the precipitous decline in the local economy. Along with several other economically sensitive revenue sources (e.g., Transient Occupancy Tax, development-related fees, Construction and Conveyance Tax, etc.), the Sales Tax category has suffered a steep decline in collections. For 2003-2004, receipts of \$123.9 million are projected, which would be less than 1% higher than the 2002-2003 actual level. The 2003-2004 estimate was based, in part, on a review of the first two quarters of actual General Sales Tax collections, the first of which saw a drop of less than 1% over the same quarter during the prior year and the second of which saw an increase of approximately the same percentage over the same quarter during the prior year. For the remainder of 2003-2004, the estimate assumed flat growth over the prior year for the third and fourth quarters, respectively.

For 2004-2005, the General Sales Tax estimate assumes slow growth over 2003-2004. Growth of 1% is projected in the first and second quarters over the prior year, and 2.0% growth in the third and fourth quarters, for an annualized growth rate of close to 1.5%.

The volatility in the City's collection experience for the past four years makes forecasting the General Sales Tax category a challenging task. Consistent with past years, therefore, Sales Tax Collections will be carefully monitored during the year and the status reported to the City Council through the Monthly Financial Report.

#### **Public Safety (Proposition 172) Sales Tax**

The Public Safety (Proposition 172) Sales Tax is a 1/2-cent sales tax collected by the State and distributed to counties and cities. The City of San José receives a percentage of this allocation. The 2004-2005 Adopted Budget estimate for Proposition 172 Sales Tax of \$4.6 million assumes flat growth from the estimated 2003-2004 year-end collection levels.

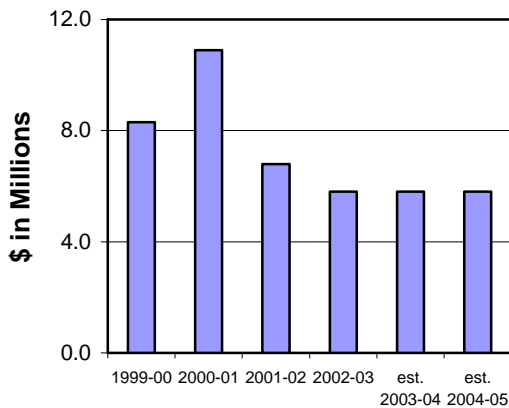
The growth rate for this category is slightly lower than the estimate for the General Sales Tax category because there is a different basis for the allocation of these funds.

## GENERAL FUND REVENUE ESTIMATES

### TRANSIENT OCCUPANCY TAX

|                                 |             |
|---------------------------------|-------------|
| 2002-2003 Actual                | \$5,800,000 |
| 2003-2004 Adopted               | \$6,718,500 |
| 2004-2005 Forecast              | \$5,845,620 |
| 2004-2005 Adopted               | \$5,845,620 |
| Percent of General Fund         | 0.7%        |
| % Change from 2003-2004 Adopted | (13.0%)     |

#### Collection Trend:



#### Revenue Estimates:

The 2004-2005 Adopted Budget estimate for the General Fund's (4.0%) share of the Transient Occupancy Tax assumes adjusted growth of 2.0% in revenues over a 2003-2004 year-end estimate of \$5.8 million.

Growth in this category had been extremely strong prior to 2001-2002. That year, however, saw the beginning of a precipitous decline that continues to this day, as the result of the combined impact of the general deterioration in economic conditions along with the aftermath of September 11. The downward slide included a 14.9% decline in 2002-2003 collections with a further decline (2.4%) anticipated for 2003-2004. This fall-off is a significant departure from the experience of the mid to late 1990 years. With the exception of a moderate increase of slightly over 4.0% in 1998-1999, growth in this category ranged from 13.0% to 21.0% between 1993-1994 through 2000-2001.

The Adopted Budget assumes the resumption of modest growth in 2004-2005. Revenue is anticipated to be up by an adjusted 2.0%, reflecting mostly the impact of an expected increase in the number of available rooms.

## GENERAL FUND REVENUE ESTIMATES

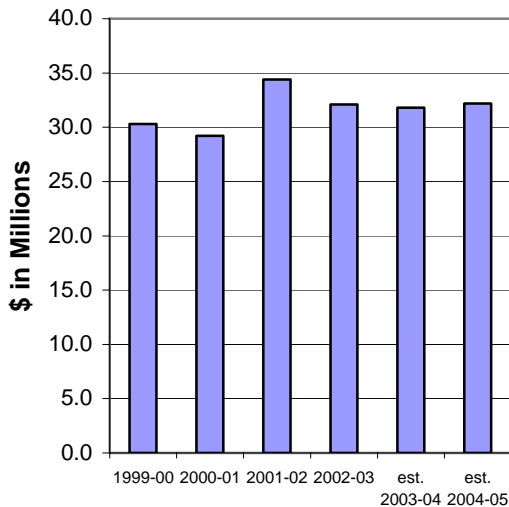
### FRANCHISE FEES

|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$32,092,363 |
| 2003-2004 Adopted               | \$32,406,000 |
| 2004-2005 Forecast              | \$31,672,000 |
| 2004-2005 Adopted               | \$32,162,000 |
| Percent of General Fund         | 4.1%         |
| % Change from 2003-2004 Adopted | (0.8%)       |

#### Major Categories:

- Electricity, Gas and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

#### Collection Trend:



#### Revenue Estimates:

##### Electricity, Gas, and Water Utility Services

The 2003-2004 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based upon the proceeds of that company in the calendar year 2003. Final accounting for the preceding calendar year takes place in late April of each year.

The 2004-2005 Adopted Budget estimate for both the Electricity and Gas Franchise Fees is based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts.

In 2004-2005, the Electricity Franchise Fee revenue estimate totals \$13.8 million, which is slightly below the 2003-2004 year-end estimate of \$14.1 million. The anticipated decline in City proceeds reflects the reduction in rates mandated by a settlement agreement, approved by the CPUC, which allowed PG&E to emerge from bankruptcy. The Gas Franchise Fee estimate of \$2.7 million assumes 2.0% growth over the estimated 2003-2004 collections level, reflecting a presumed slight increase for consumption and no additional rate increases. It should be noted, however, that actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

## GENERAL FUND REVENUE ESTIMATES

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### Franchise Fees (Cont'd.)

#### Electricity, Gas, and Water Utility Services (Cont'd.)

Water Franchise Fee collections are anticipated to experience flat growth for 2004-2005 with an estimated revenue level of \$160,000. As with the Gas Franchise Fees, collections in this area can vary based on the impact of the weather conditions that may influence water usage.

#### Commercial Solid Waste

For 2003-2004, Commercial Solid Waste Franchise Fees were anticipated to reach \$9.3 million. This amount reflects an increase of approximately 8.3% from 2002-2003 actual receipts. From this point, collections are projected to grow by 6.4% in 2004-2005 to \$9.9 million. This increase reflects an adjustment that protects smaller commercial franchise haulers and generates, in 2004-2005, an additional \$490,000 in General Fund fee revenue by removing an annual exemption (first 21,600 cubic yards disposed) provided to franchised commercial haulers that provide "front-loader" service. The annual exemption, originally implemented to encourage small businesses and promote a competitive commercial market, would continue for "non-front loader" franchises. This action was included in the 2004-2005 Proposed Operating Budget: Accelerated Proposals memorandum approved by City Council on May 4, 2004, to ensure proper

notification to commercial haulers for implementation on July 1st. The projected increase in revenues in this category also reflects the combined impact of stabilized solid waste volume levels (previously dropping as diversion programs were implemented and the recession continued) and the shift in the revenue distribution between the Commercial Solid Waste Franchise Fee and AB 939 fees (also known as "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) that was approved in the 2002-2003 Adopted Budget.

#### Cable Television

The 2004-2005 Adopted Budget estimate for the Cable Television Franchise Fee revenue of \$4.3 million represents a drop of 1.5% based upon a review of past and current collection patterns. No impact from rate increases is assumed.

#### City-Generated Towing and Nitrogen Pipeline

Consistent with current year experience, City-Generated Towing Franchise Fee revenues are expected to total \$1.2 million in 2004-2005.

Proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$56,000 in 2004-2005, an amount equal to the 2003-2004 estimate.

## GENERAL FUND REVENUE ESTIMATES

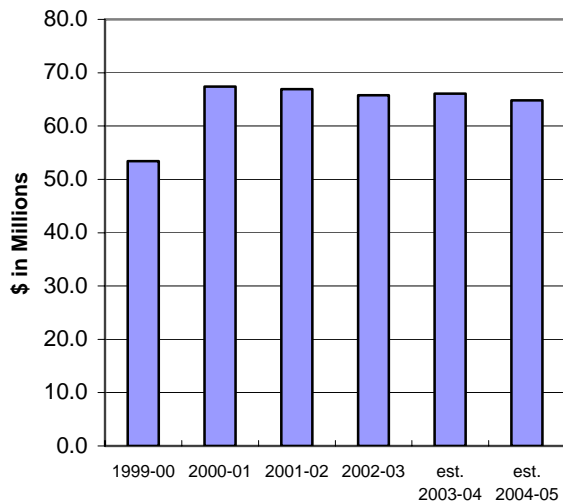
### UTILITY TAX

|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$65,784,892 |
| 2003-2004 Adopted               | \$66,979,000 |
| 2004-2005 Forecast              | \$63,613,000 |
| 2004-2005 Adopted               | \$64,803,600 |
| Percent of General Fund         | 8.2%         |
| % Change from 2003-2004 Adopted | (3.2%)       |

#### Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

#### Collection Trend:



#### Revenue Estimates:

##### Electricity Utility Tax

For 2003-2004, Electricity Utility Tax revenue of \$31.8 million is anticipated to be down by 6.2% from the 2002-2003 actual collection levels. This lower level of collections primarily reflects the impact of legal and regulatory actions, including:

- A September 2003 announcement by the California Public Utilities Commission that ordered an unanticipated one-time rebate to PG&E customers. The negative impact of that rebate on the City is projected at approximately \$1.1 million.
- The reduction in rates mandated by a settlement agreement, approved by the CPUC, which allowed PG&E to emerge from bankruptcy (as discussed above). This agreement reduced rates retroactive to January 2004.

Beyond the impact of these two actions, locally a slight decline of less than 1% is anticipated for 2004-2005 based on a 2% increase for consumption coupled with the expected lower rates.

## GENERAL FUND REVENUE ESTIMATES

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### Utility Tax (Cont'd.)

#### Gas Utility Tax

In the Gas Utility category, it was anticipated that we would receive approximately \$7.2 million in 2003-2004 collections. This estimated level represented flat growth from the historically high 2002-2003 year-end receipts. The spike in gas prices that started in 2002-2003 and has lasted well into 2003-2004, has started to drop and it is anticipated that gas prices will return to a more historically lower price range next year, resulting in an almost 16% decline in projected 2004-2005 receipts.

#### Water Utility Tax

The 2004-2005 estimate for Water Utility Taxes of \$6.6 million assumes growth of approximately 5% over the estimated 2003-2004 collection level of \$6.3 million. This growth expectation reflects the impact of an anticipated increase in wholesale water rates. It should be noted that this category is also subject to fluctuations based on weather conditions.

#### Telephone Utility Tax

In 2003-2004, it was anticipated that collections would end the year at \$19.8

million, reflecting a 3.2% increase over the 2002-2003 actual collection level. Included in this amount is an estimate of \$500,000 to be received from Telephone Utility Tax compliance reviews administered by the Finance Department. From this base, a decline of almost 2% is anticipated in 2004-2005, bringing collections to \$19.4 million. This anticipated drop is primarily due to a presumed continued decline in consumer demand related to local economic conditions and changing habits regarding the number of land phone lines maintained by households.

In addition, a \$460,600 increase in one-time revenue was approved related to the recognition of "New Realities" Telephone Tax revenue on interstate and international telephone calls that has been held for several years for possible refunds, and may now be legally released to the General Fund. Additional discussion related to this effort may be found in the Finance Department section of this document. With the approved adjustment, collections are expected to reach \$19.9 million in 2004-2005.

A \$730,000 increase in one-time Utility User's Tax revenue was also approved related to the recognition of revenue due to Utility User's Tax compliance reviews conducted by the Finance Department.

## GENERAL FUND REVENUE ESTIMATES

### LICENSES AND PERMITS

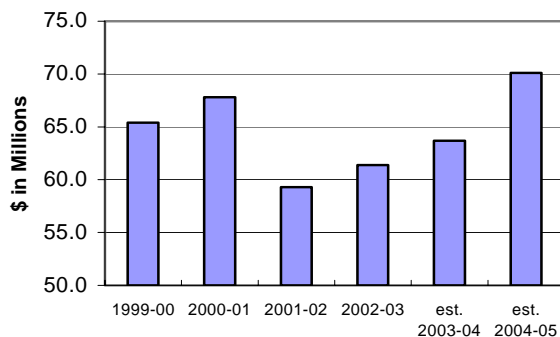
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$61,406,732 |
| 2003-2004 Adopted               | \$66,742,685 |
| 2004-2005 Forecast*             | \$60,668,481 |
| 2004-2005 Adopted               | \$70,054,677 |
| Percent of General Fund         | 8.9%         |
| % Change from 2003-2004 Adopted | 5.0%         |

\* Decreased by \$542,447 from the March Forecast to reflect a revised estimate related to the Disposal Facility Tax.

#### Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

#### Collection Trend:



#### Revenue Estimates:

##### Business Tax

The 2004-2005 revised forecast estimate for General Business Taxes totals \$12.0 million, reflecting a 3.4% decline over the 2003-2004

year-end estimate before approved balancing strategy adjustments. The Adopted Budget does include two actions that are expected to generate additional Business Tax revenue.

Per City Council direction, implementation of a Business Tax Amnesty Program related to the collection of the City's business tax was approved. The Program will grant amnesty for the payment of delinquent penalties and interest otherwise due, serving as a mechanism to identify and collect on delinquent business taxes. The Program is expected to generate one-time revenue of almost \$1 million. When adjusted for the one-time expenditures associated with the amnesty effort, the net benefit to the General Fund is anticipated to be approximately \$790,000. Businesses participating in the Program will subsequently be included in the annual business tax renewal process, resulting in projected additional ongoing annual business tax revenue of \$150,000.

In addition, the Business Information Management System (BIMS) that compares various lead source data files (e.g. State of California Franchise Tax Board, State Resale Permits, Fictitious Business Filings, etc.) is expected to generate an additional \$1.45 million in 2004-2005. With the adopted adjustments, the 2004-2005 General Business Taxes revenue is anticipated to be \$14.4 million.



## GENERAL FUND REVENUE ESTIMATES

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### **Licenses and Permits (Cont'd.)**

#### **Cardroom Tax**

Cardroom Tax collections are anticipated to reach \$7.5 million in 2004-2005. Per previous City Council direction, the Adopted Budget utilizes only a small portion (\$1.25 million) of this funding for ongoing purposes. This reflects City Council direction to continue reducing the ongoing reliance on this revenue source. The remaining \$6.25 million was, however, approved to be allocated on a one-time basis in this budget to help offset the expected General Fund budget shortfall.

#### **Disposal Facility Tax**

Collections in 2003-2004 are expected to decline by 14.8%. This decline is, however, primarily the result of a dispute over the removal of the Alternate Daily Cover (ADC) exemption that was approved in the 2002-2003 Adopted Budget. As discussed above, BFI and Waste Management have taken issue with the removal of the Alternate Daily Cover exemption. Pending a resolution of this \$1.8 million dispute, by agreement with the City Attorney's Office, BFI and Waste Management are paying amounts related to alternative daily cover into an escrow account, rather than the General Fund. The City Attorney's Office is still working to reach an agreement by which the disputed funds can be released to the General Fund.

In addition to the amount in dispute, some materials that were considered ADC are now apparently being transported to other facilities, which has resulted in an additional reduction in revenues. Growth is expected to be flat in 2004-2005 from the current year level, but with the expected resolution of the ADC dispute in the favor of the City next year, collections have been projected to climb to \$15.1 million in 2004-2005.

#### **Fire Permits**

The 2004-2005 Adopted Budget revenue estimate of \$6.2 million represents 7.0% growth from the 2003-2004 year-end estimate.

Fee increases of 5% for the Permitted/Special Occupancy and the Hazardous Materials Divisions were approved to cover increases in benefits and retirement costs and further close the gap between costs and revenues in the non-development program (\$150,855). The Engineering Division gained approval for the addition of a Record Retention Fee (\$50,000) and a restructuring of its service fee and fee methodology to align with the development partners in the CSA (\$30,000), and bring the program closer to cost recovery.

#### **Building Permits**

The 2004-2005 Adopted Budget revenue estimate of \$21.6 million represents 11.6% growth from the 2003-2004 year-end estimate.

As expenditures in this program have traditionally out paced revenue collections, a multi-year phased in increase to the fee structure was approved by City Council beginning in 2002-2003. Fee adjustments, coupled with improvements in service delivery, have helped to remove the structural imbalance in the fee program and the 4.3% third phase increase in Building Permits fees is expected to bring the program to 100% cost recovery in 2004-2005. Included in this increase is a \$397,000 funding shift to direct charge a portion of administrative support to the fee program.

#### **Miscellaneous Other Licenses and Permits**

A modest 1.3% increase in the Multiple Housing Permit fees was approved to cover base cost increases.

## GENERAL FUND REVENUE ESTIMATES

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### Licenses and Permits (Cont'd.)

#### *Miscellaneous Other Licenses and Permits (Cont'd.)*

A \$66,000 funding source shift of 0.5 position for a Code Enforcement Inspector from the Property Owner Training Program to the Multiple Housing Program was approved as well to more properly align resources to service delivery.

## GENERAL FUND REVENUE ESTIMATES

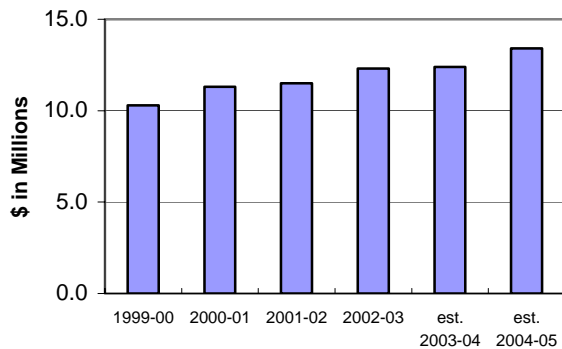
### FINES, FORFEITURES, AND PENALTIES

|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$12,253,993 |
| 2003-2004 Adopted               | \$12,734,000 |
| 2004-2005 Forecast              | \$12,475,000 |
| 2004-2005 Adopted               | \$13,371,471 |
| Percent of General Fund         | 1.7%         |
| % Change from 2003-2004 Adopted | 5.0%         |

#### Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax and Cardroom Penalties
- Administrative Citation Program
- Other Fines and Penalties

#### Collection Trend:



#### Revenue Estimates:

For 2004-2005, overall collections in this category are expected to increase 7.7% from 2003-2004 year-end projections due to approved General Fund budget balancing strategy actions. Following is a discussion of the major components of this category.

#### Vehicle Code and Municipal Court Fines

In 2004-2005, Vehicle Code Fines are estimated at \$1.9 million and Municipal Court Fines are expected to reach \$750,000. These collection levels are consistent with the 2003-2004 year-end estimates.

#### Parking Fines

In 2003-2004, anticipated collections of \$7.1 million were expected to be below the modified budget estimate of \$7.4 million. In 2004-2005, increases to citation amounts were approved to bring San José's rates closer to other jurisdictions in the Bay Area, except for a few safety related violations, which will exceed the average. These approved increases are projected to generate an additional \$473,000 in annual citation revenue and are the first increases to these fees in roughly a decade. A new surcharge fee was also approved that will allow the City to recoup the \$3 processing fee that the Department of Motor Vehicles (DMV) charges the City, generating approximately \$170,000 in additional annual revenues. Finally, parking garage security improvements were approved that are expected to generate approximately \$253,000 in parking compliance revenues. Once the patrol duties are brought in-house, these staff will also provide garage patrol parking compliance services. With these adjustments, parking revenues are expected to total \$8.0 million in 2004-2005.

## GENERAL FUND REVENUE ESTIMATES

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### **Fines, Forfeitures and Penalties (Cont'd.)**

#### **Business Tax and Cardroom Penalties**

In the Business Tax Penalties category, collections are anticipated to total \$900,000 in both 2003-2004 and 2004-2005. The scheduled collection of the long standing Garden City penalty payment (\$582,900) is once again not included in the 2004-2005 Adopted Budget because it is still not known when or if these payments will be made due to Garden City's continued involvement in bankruptcy proceedings.

#### **Administrative Citation Program**

The Administrative Citation Program is projected to generate approximately \$575,000 in 2004-2005, reflecting a slight (2%) decline from the 2003-2004 year-end estimate.

#### **Other Fines and Penalties**

The Other Penalties category consists primarily of collections associated with the Code Enforcement Hearings Program. It is anticipated that collections will total \$400,000 in 2003-2004 based on the year-to-date collection level, and no growth is expected for 2004-2005.

## GENERAL FUND REVENUE ESTIMATES

### REVENUE FROM USE OF MONEY AND PROPERTY

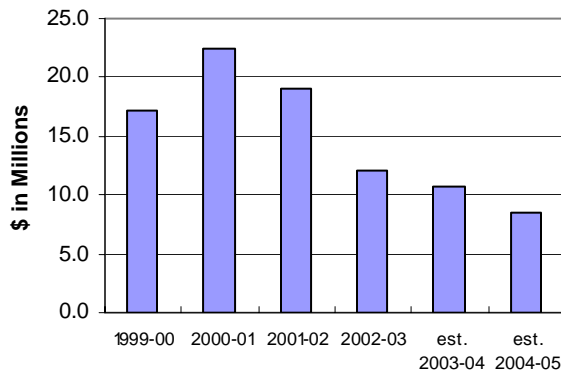
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$11,974,835 |
| 2003-2004 Adopted*              | \$9,732,500  |
| 2004-2005 Forecast              | \$7,174,163  |
| 2004-2005 Adopted               | \$8,474,163  |
| Percent of General Fund         | 1.1%         |
| % Change from 2003-2004 Adopted | (12.9%)      |

\* Increased by \$13,800 from the March Forecast to reflect an expected increase in loan interest income.

#### Major Categories:

- General Fund Interest Earnings
- Special Funds Interest Earnings
- Miscellaneous Collections

#### Collection Trend:



#### Revenue Estimates:

The largest source of revenue in the Use of Money and Property category is earnings on investments of General Fund and several other funds' cash.

##### General Fund Interest Earnings

Based upon a review of the Monthly Investment Report data and reinvestment rates, a 2004-2005 average interest yield of 2.3%, applied to an estimated average cash

balance of \$177.0 million, was assumed in a total General Fund interest earnings projection of \$4.1 million. This amount is significantly lower than the 2003-2004 year-end estimate of \$5.2 million, and down severely from the 2001-2002 collection level of \$11.9 million. The decrease reflects the continuing drop in interest rate earnings (2.3% versus 2.6% in 2003-2004), applied to a lower average cash balance assumption (\$177.0 million versus \$195.0 million).

##### Special Fund Interest Earnings

The interest income estimate from Special and Capital Funds in 2004-2005, totaling approximately \$2.0 million, is projected to be slightly lower than the 2003-2004 modified budget estimate of \$2.2 million. Though no overall growth is anticipated, adjustments to the individual estimates were made to reflect the activity anticipated in 2004-2005.

##### Miscellaneous Collections

Based on 2003-2004 projections, it is anticipated that approximately \$1.0 million will be generated in 2004-2005 from Property Tax interest, Subrogation Recovery, property rentals, and interest on various executive loans. This includes a Forecast adjustment of \$13,800 to reflect an expected increase in loan interest income.

## GENERAL FUND REVENUE ESTIMATES

### REVENUE FROM LOCAL AGENCIES

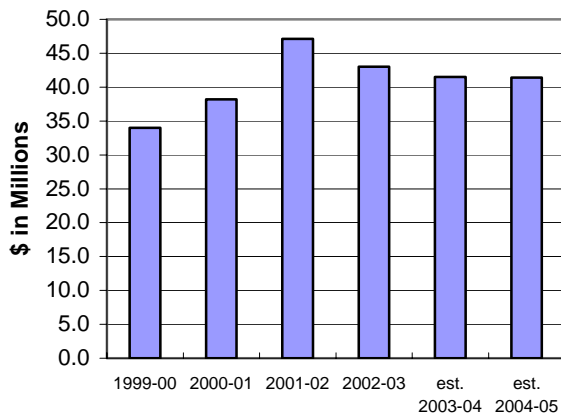
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$43,008,504 |
| 2003-2004 Adopted               | \$39,520,530 |
| 2004-2005 Forecast*             | \$41,784,828 |
| 2004-2005 Adopted               | \$42,147,901 |
| Percent of General Fund         | 5.4%         |
| % Change from 2003-2004 Adopted | 6.6%         |

\* Increased by \$1.2 million from the March Forecast to reflect updated estimates for various reimbursements from other agencies

#### Major Categories:

- Reimbursement from the Redevelopment Agency (Agency) for City Staff/Overhead
- Agency Payment for Convention Center Debt Service and City Capital Expenditures
- Enterprise Fund In-Lieu Charges
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

#### Collection Trend:



#### Revenue Estimates:

##### Redevelopment Agency

The Redevelopment Agency reimbursements included in the March Forecast Budget (\$12.9 million) were based upon estimated 2004-2005 costs for City Redevelopment Agency staff, Agency overhead costs based on the 2003-2004 rates, and the projected 2004-2005 cost of the current complement of City support services provided to the Agency. In the Adopted Budget, this base figure was adjusted downward by approximately \$596,000 to reflect the anticipated reduction in the level of reimbursement based on discussions with the Agency and updated overhead rates.

This reduction in reimbursement is related to approved budget balancing actions necessary in the Redevelopment Agency budget, which would eliminate or reduce the following services previously provided by the City through the use of the Redevelopment Agency funding: Neighborhood Business Districts code enforcement (\$132,000), reimbursement for the Office of Economic Development (\$66,000), reduced reimbursement for Community Based Organizations (\$20,000), support for the Mayor and City Council (\$161,000); and funding for two City Attorney positions (\$217,000).

## GENERAL FUND REVENUE ESTIMATES

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### Revenue from Local Agencies (Cont'd.)

#### Redevelopment Agency (Cont'd.)

Included is the continued presumption of Redevelopment Agency reimbursement for the Convention Center Lease payment of \$13.0 million, which reflects a pre-determined debt payment schedule amount. In addition, the total reimbursement for City capital expenditures, which enables the City to fund the San José BEST Program, is presumed to be continued at \$3.0 million. The San José BEST Program provides funding for schools, community based organizations, and other programs aimed at deterring gang and drug activities and providing employment opportunities for youth.

#### Enterprise Fund In-Lieu Charges

The approved estimate for Revenue from Local Agencies assumes total Enterprise Fund In-Lieu Charges of \$4.8 million. These payments are received from the Municipal Water System and Water Pollution Control Plant enterprise funds in lieu of franchise fees and other various taxes and fees, which the City would have received if these entities were privately owned. The approved amount includes changes to the fee for the Municipal Water System to bring the fee in compliance with new ordinance changes restricting the fee to amounts paid by potable water utilities that are not exempt from the payment of franchise fees to the City and are operated under the authority of the California Public Utilities Commission.

#### Central Fire District and Paramedic Program Payments

The City receives payments from the Central Fire District for emergency services provided to district residents by the San José Fire Department. These payments are presumed to occur at the \$4.9 million level for 2004-2005. This estimate is based on 3% growth over the anticipated 2003-2004 receipts to reflect the anticipated increase in Secured Property Tax revenues.

Payments from the County for the Paramedic Program are expected to remain flat compared to the 2003-2004 estimated collection level of \$1.5 million, under the existing agreement with American Medical Response (AMR). This five-year agreement with AMR is coterminous with AMR's agreement with the County of Santa Clara.

#### Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2004-2005, the base level of revenue was set at the 2003-2004 estimated level. In addition, a Community Coordinator position in the San José Schools/City Collaborative Program was eliminated, which resulted in a \$40,500 reduction in revenue for the 50% of the position funded by the school districts.

## GENERAL FUND REVENUE ESTIMATES

### REVENUE FROM THE STATE OF CALIFORNIA

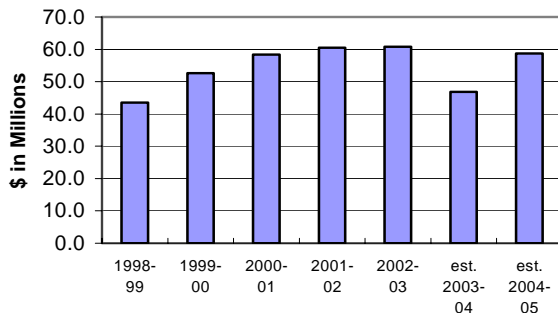
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$60,808,075 |
| 2003-2004 Adopted               | \$58,248,626 |
| 2004-2005 Forecast*             | \$58,668,706 |
| 2004-2005 Adopted               | \$59,003,527 |
| Percent of General Fund         | 7.5%         |
| % Change from 2003-2004 Adopted | 1.3%         |

\* Decreased by \$26,000 from the March Forecast primarily to reflect lower expectations related to Highway Maintenance Charges.

#### Major Categories:

- Motor Vehicle and Airplane In-Lieu Taxes
- State Grants

#### Collection Trend:



#### Revenue Estimates:

##### Motor Vehicle and Airplane In-Lieu Taxes

Total revenue from the State is expected to drop from \$60.8 million in 2002-2003 to \$46.8 million in 2003-2004. Almost all of this drop is due to lower Motor Vehicle In-Lieu Fee (VLF) payments. As part of the State budget balancing actions in 2003-2004, the City's VLF payment was reduced by \$10.5 million. In addition, subsequent to the September re-balancing actions, it was determined that a key assumption, based on State assurances, used to estimate prior year revenues in this

category was incorrect. Based on statements from the State Controller, the Finance Department presumed that a VLF payment in the amount of \$1.3 million due to the City in June, would simply be delayed. We have subsequently learned that this amount will not be paid. The result is an additional shortfall of \$1.3 million in 2003-2004 collections.

The growth in VLF has been extraordinarily strong in recent years with growth of 10.0% in 1997-1998, 9.5% in 1998-1999, 11.0% in 1999-2000, 9.8% in 2000-2001, and 5.3% in 2001-2002. These growth rates reflected a surge in car sales throughout the State that has been sustained for several years. In 2004-2005, VLF growth is not expected to continue at this strong pace due to the continued weak local economy. In 2004-2005, modest growth of 2.0% over the 2003-2004 year-end estimate, after adjusting for the one-time 2003-2004 events described above, is expected, for a total of \$54.0 million. This approved estimate does not reflect any impact from potential State budget balancing actions in this area and presumes that the State will provide the City with the full VLF backfill amount during 2004-2005. Should this not be the case, our exposure in this area remains huge, totaling approximately \$37 million.

The 2004-2005 Airplane In-Lieu fees are estimated at \$1.4 million, reflecting no growth from the current year-end estimate.



## GENERAL FUND REVENUE ESTIMATES

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### Revenue from the State of California (Cont'd.)

#### State Grants

Public Library Fund (PLF) SB 358 grant funds are estimated to total \$415,000 in 2003-2004. Based on State budget balancing actions taken during 2003-2004, it is anticipated that 2004-2005 PLF funding will decrease to \$382,000. Abandoned Vehicle fee revenue of \$690,000 is anticipated in 2004-

2005, reflecting flat growth from the current year-end estimate. Also, included in this Adopted Budget is anticipated revenue of \$1.6 million to fund the final year of a three-year San José LEARNS program.

Based on the lower projected activity level for 2004-2005, a minor \$12,000 downward adjustment was approved for the fee related to traffic maintenance charges reimbursements from the State administered by the Transportation Department.

## GENERAL FUND REVENUE ESTIMATES

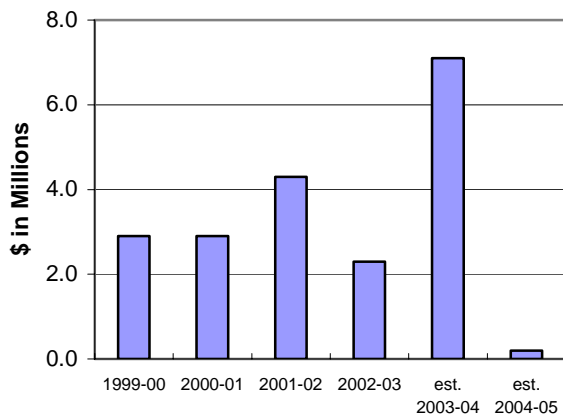
### REVENUE FROM THE FEDERAL GOVERNMENT

|                                 |             |
|---------------------------------|-------------|
| 2002-2003 Actual                | \$2,290,812 |
| 2003-2004 Adopted               | \$1,026,904 |
| 2004-2005 Forecast              | \$199,500   |
| 2004-2005 Adopted               | \$5,815,690 |
| Percent of General Fund         | 0.7%        |
| % Change from 2003-2004 Adopted | 466.3%      |

#### Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

#### Collection Trend:



#### Revenue Estimates:

The revenue in this category is received from various grant programs. The 2004-2005 Adopted Budget only includes those grant proceeds known to be obligated for next year. Among them are the COPS Interoperable Communications Grant (\$4.2 million); Metropolitan Strike Team Grant (\$990,000); Senior Companion Grant (\$108,500); and the Retired Seniors Volunteer Program Grant (\$91,000).

## GENERAL FUND REVENUE ESTIMATES

### DEPARTMENTAL CHARGES

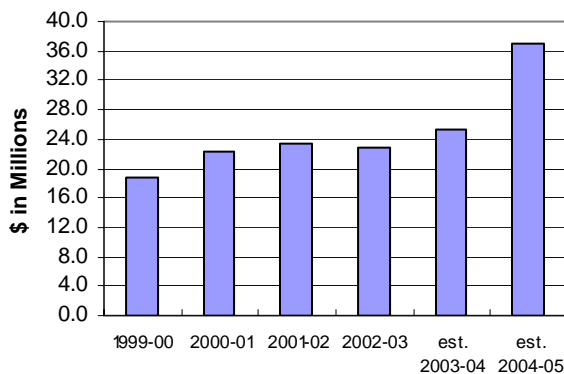
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$22,844,760 |
| 2003-2004 Adopted               | \$24,974,477 |
| 2004-2005 Forecast*             | \$25,589,293 |
| 2004-2005 Adopted               | \$26,976,779 |
| Percent of General Fund         | 3.4%         |
| % Change from 2003-2004 Adopted | 8.0%         |

\* Decreased by \$27,727 from the March Forecast to reflect changes in anticipated Police-related fees and charges revenue.

#### Major Categories:

- Police Fees
- Public Works Fees
- Transportation Fees
- Library Fees
- Planning Fees
- Parks, Recreation and Neighborhood Services Fees
- Miscellaneous Departmental Fees

#### Collection Trend:



#### Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover

costs of services provided by several City departments. In the 2004-2005 Adopted Budget, estimated departmental charges for services revenue is flat when compared to the 2003-2004 Modified Budget level and 4.7% higher (\$1.2 million) than the Revised Forecast level.

The increase in the Adopted Budget in this category is mainly the result of adjustments to various fee programs, including approved increases to various fees designed to address projected activity levels and service level demands in 2004-2005.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs was provided in the 2004-2005 Fees and Charges document.

#### Police Fees

The Adopted Budget revenue estimate for the Police Department (\$1.6 million) represents a 13.9% (\$195,000) increase from the Revised Forecast level. This positive variance results from fee revisions throughout the fee program. For 2004-2005, Police Department fees are expected to be at the 96.8% cost recovery level.

## GENERAL FUND REVENUE ESTIMATES

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### Departmental Charges (Cont'd.)

#### Public Works Fees

In 2004-2005, Public Works fees are expected to generate \$7.1 million, which is consistent with the 2003-2004 year-end estimate.

The Adopted Budget estimate is approximately \$517,000 higher than the Revised Forecast level for Public Works departmental fees to reflect the actual amount of revenue expected in the upcoming year. As a result of healthy 2003-2004 revenue collections, additional resources to support this fee program will be necessary in 2004-2005. To address the anticipated workload, included in this budget is approval to shift 4.0 positions from the capital program to the fee program. In 2004-2005, the Public Works fee program is expected to continue to be 100% cost-recovery.

#### Transportation Fees

Transportation Departmental charges are expected to generate approximately \$752,000 in 2004-2005. This collection level represents a decline of 31% from 2003-2004 estimated year-end receipts. The anticipated decline reflects one-time revenues received in 2003-2004 for unexpected extra work in the Coyote Valley area. The 2004-2005 estimates include \$31,000 in fee changes that are approved to maintain cost-recovery levels in 2004-2005.

#### Library Fees

Library Department fees and fines for 2004-2005 are estimated at \$950,000, representing a 2.5% decline from the expected 2003-2004 year-end level. This decline primarily reflects the unanticipated impact of an increase in Library conference room fees to align with the current charges for community center conference rooms approved in the 2003-2004 budget that has actually resulted in a drop in

activity and revenue. The amount of this fee is currently under study by the Library Department.

#### Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications. For 2004-2005, the Planning fee program revenue estimate (\$5.8 million) reflects an anticipated leveling of activity combined with approved fee increases, and use of the Planning Fee Reserve (\$152,000) to keep the program at 100% cost-recovery. Included in this category are increases to reflect direct charging of a portion of Planning, Building and Code Enforcement administration to the fee program (\$57,000), and implementation of a General Plan update surcharge (\$200,000).

#### Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are expected to reach \$8.1 million in 2004-2005 based on a net combination of current activity projections, loss of revenue associated with approved changes to PRNS departmental operations, and approved fee increases. These fee increases primarily reflect changes approved in conformance with City Council direction to match revenues with program costs in order to maintain cost recovery and include a reduction in operations at Happy Hollow Park and Zoo (\$12,000); additional revenue from the City-Wide Theater Arts Program (\$55,000); City-Wide aquatics fee increases (\$20,000); revenue opportunities from regional parks (\$27,000); a combination of fee increases and increases in the number of fee supported programs for the San José Afterschool Program (\$77,000); and additional animal services revenue (\$150,000).

## GENERAL FUND REVENUE ESTIMATES

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### Departmental Charges (Cont'd.)

#### **Miscellaneous Departmental Fees**

Collections of \$2.7 million are anticipated in 2004-2005 from a variety of miscellaneous fees and charges, including \$2.5 million from the Solid Waste Enforcement Fee (SWEF) Program. A 6.7% increase (\$161,000) to the SWEF was approved to cover base cost

increases and maintain the program at the 100% cost-recovery level. Also included in this category are miscellaneous code enforcement fee adjustments (\$3,000) to maintain fees at cost recovery. Additional discussion related to these changes may be found in the Economic and Neighborhood Development CSA section of this document.

## GENERAL FUND REVENUE ESTIMATES

### OTHER REVENUE

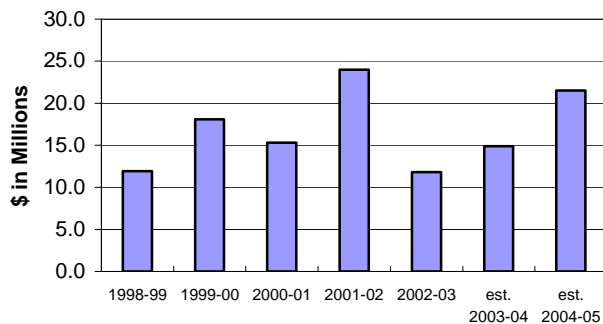
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$11,864,674 |
| 2003-2004 Adopted               | \$11,816,110 |
| 2004-2005 Forecast*             | \$20,001,751 |
| 2004-2005 Adopted               | \$23,688,273 |
| Percent of General Fund         | 3.0%         |
| % Change from 2003-2004 Adopted | 100.5%       |

\* Increased by \$7.3 million from the March Forecast to reflect increases to the Evergreen and Coyote Valley Specific Plans.

### Major Categories:

- Solid Waste Enforcement Fees
- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Fiber Optic Infrastructure Inspection Costs
- Sale of Surplus Property
- SB 90 Reimbursements from the State
- Sidewalk Repair Activities

### Collection Trend:



### Revenue Estimates:

#### HP Pavilion at San José Revenues

The 2004-2005 estimate of \$4.0 million is based on an approved payment schedule for

HP Pavilion at San José parking and rentals, naming rights, and estimated collections for suite revenues. It should be noted that this figure includes \$1.5 million in additional revenue from the Naming Rights and Trademark License Agreement between the Hewlett-Packard Corporation, San José Arena Management, and the City that was negotiated in 2000-2001.

As these revenues are based on prior year actual receipts, any fiscal impact from a threatened labor stoppage, which might impact next years NHL hockey season, would not be felt by the City until 2005-2006.

#### Investment Program Reimbursement

The 2004-2005 revenue estimate for this category is \$2.0 million based on the estimated costs of this program that will be reimbursed from proceeds on investment earnings. This estimate includes a slight reduction (\$3,802) to reflect approval to reduce staff costs. Approved alternate funding for the City's debt program is also expected to generate \$200,000.

## GENERAL FUND REVENUE ESTIMATES

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### Other Revenue (Cont'd.)

#### **Sale of Surplus Property and Compensation**

The Adopted Budget includes revenue in the amount of \$1.1 million associated with the sale of surplus property. This includes estimated proceeds of \$1.0 million for the sale of City property to the Housing Department for low and moderate income housing projects. Also approved was the sale of surplus parts and equipment (\$330,000).

Minor adjustments (\$5,000) were also approved for the 2004-2005 fee revenues related to the sale of street name signs, new subdivision traffic control signs, and new subdivision pavement markings administered by the Transportation Department, bringing those categories into alignment with current projections. The Coyote Valley specific Plan (\$1.9 million) and the Evergreen Strategy

(\$8.1 million) are also included in this revenue category.

#### **SB 90 Reimbursements from the State**

Per the passage of Senate Bill 90, enacted January 1, 1973, the State reimburses the City for eligible costs incurred by the City for certain State-mandated programs. Due to State budget cuts, the only remaining reimbursement in the Adopted Budget is \$2.5 million for Jail Booking fees. It should be noted, however, that this revenue source is at risk, pending State budget reduction actions.

#### **Sidewalk Repair Activity**

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2004-2005 revenue estimate for this category is \$400,000.

## GENERAL FUND REVENUE ESTIMATES

### TRANSFERS AND REIMBURSEMENTS

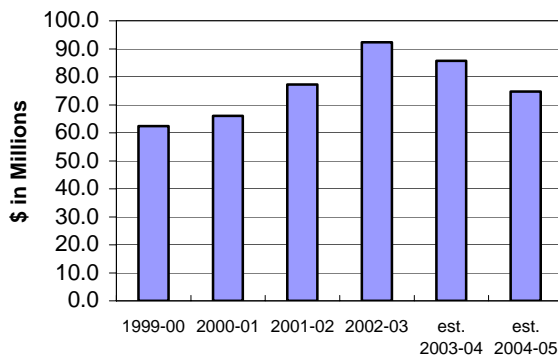
|                                 |              |
|---------------------------------|--------------|
| 2002-2003 Actual                | \$92,335,646 |
| 2003-2004 Adopted               | \$86,035,070 |
| 2004-2005 Forecast*             | \$70,020,645 |
| 2004-2005 Adopted               | \$77,482,420 |
| Percent of General Fund         | 9.9%         |
| % Change from 2003-2004 Adopted | (9.9%)       |

\* Increased by \$134,142 from the March Forecast to reflect changes in overhead rates, an increase in reimbursements for the administration of the Deferred Compensation Plan, and transfers from the Construction and Conveyance Park Yards Fund.

#### Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

#### Collection Trend:



#### Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers. Included in this category is the Municipal Water Rate of Return, representing a return

on the City's investment in the Municipal Water infrastructure and equipment. Recent Council action to limit the amount of this transfer will result in a decline of approximately \$757,000 in funding to the General Fund in 2004-2005.

In total, Transfers and Reimbursements are anticipated to generate approximately \$77.5 million in 2004-2005. This constitutes a decline of 10.3% from the 2003-2004 Modified Budget level. The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2004-2005.

#### Overhead Reimbursements

The 2004-2005 Adopted Budget includes a slight downward net change of approximately \$1,317 to the estimate for overhead reimbursements from the revised Forecast level primarily as a result of approved adjustments adding, reducing, and/or transferring position funding within various special funds. These changes result in a revised 2004-2005 overhead reimbursement amount of approximately \$29.2 million.

Significant changes were approved from the revised Forecast Base for 2004-2005 and involve the following funds:



## GENERAL FUND REVENUE ESTIMATES

### Transfers & Reimbursements (Cont'd.)

#### Overhead Reimbursements (Cont'd.)

- **Community Development Block Grant Fund.** A net decrease of \$34,117 in overhead reimbursements was approved to reflect the following changes: decrease to reflect elimination of positions in the Housing Improvement Program administered by the Housing Department (\$38,700); and supervision and support for Code Enforcement services to various targeted neighborhood revitalization and code enforcement projects (\$4,583). Additional descriptions related to these changes may be found in the Economic and Neighborhood Development City Service Area section of this document.
- **Community Facilities District Fund.** An increase of \$23,770 is approved to reflect services provided for the benefits of property owners in the Communications Hill Community Facilities District. Additional descriptions regarding the changes may be found in the Transportation Services CSA section of this document.
- **Convention and Cultural Affairs Fund.** A decrease in overhead reimbursements of \$143,555 was approved to reflect a reduction of the Office of Cultural Affairs operating costs. Additional description regarding this change may be found in the Recreation and Cultural Services CSA section of this document.
- **Dental Benefit Fund.** An increase of \$46,488 in overhead reimbursements was approved to reflect a benefits administration funding shift.
- **Employee Benefit Fund.** An increase of \$105,121 in overhead reimbursements was approved to reflect a benefits administration funding shift.
- **Integrated Waste Management Fund.** A net increase of \$3,136 in overhead reimbursements was approved to reflect the following changes: a net decrease for Environmental Services Department operating efficiencies (\$3,536); an increase in funding support for services provided by the Information Technology Department (\$7,065), and a decrease in funding support for services provided by the Finance Department (\$393). Additional descriptions related to these changes may be found in the Environmental and Utility Services CSA section of this document.
- **Life Insurance Fund.** An increase of \$22,613 in overhead reimbursements was approved to reflect a benefits administration funding shift.
- **Home Investment Partnership Program Fund.** A net decrease of \$917 in overhead reimbursements was approved to reflect a reduction and reorganization of Housing Department staffing. Additional descriptions related to these changes may be found in the Economic and Neighborhood Development CSA section of this document.
- **Low and Moderate Income Housing Fund.** A net decrease of \$51,493 in overhead reimbursements was approved to reflect a reduction and reorganization of Housing Department staffing. Additional descriptions related to these changes may be found in the Economic and Neighborhood Development CSA section of this document.

## GENERAL FUND REVENUE ESTIMATES

### Transfers & Reimbursements (Cont'd.)

#### Overhead Reimbursements (Cont'd.)

- **Parking Fund.** A net increase of \$24,439 in overhead reimbursements was approved to reflect the following changes: Parking patrol vendor contracts have been eliminated to bring service functions in-house (\$79,913); a decrease in funding support for services provided by the Information Technology Department (\$16,117), and off-street parking program efficiencies (down \$39,357). Additional descriptions regarding the changes may be found in the Transportation Services CSA section of this document.
- **Sewer Service and Use Charge Fund.** A net increase of \$3,623 in overhead reimbursements was approved to reflect the following changes: a net decrease to reflect Environmental Services Department operating efficiencies (\$4,455); an increase due to a realignment of staffing in the transportation Department (\$9,412); and a decrease in funding support for services provided by the Finance Department (down \$1,334). Additional descriptions related to these changes may be found in the Environmental and Utility Services CSA section of this document.
- **Storm Sewer Operating Fund.** A net increase of \$10,054 in overhead

reimbursements was approved to reflect the following changes: Transportation Department reorganization to facilitate project delivery and streamline operations (\$19,417); and Environmental Services Department operating efficiencies (down \$9,363). Additional descriptions regarding the changes may be found in the Environmental and Utility Services CSA section of this document.

- **Treatment Plant Operating Fund.** A net increase of \$10,614 in overhead reimbursements to reflect staffing increases approved at the Water Pollution Control Plant to address Plant infrastructure needs was approved. Additional descriptions regarding the changes may be found in the Environmental and Utility Services CSA section of this document.
- **Unemployment Insurance Fund.** An increase of \$4,528 in overhead reimbursements was approved to reflect a benefits administration funding shift.
- **Vehicle Maintenance and Operations Fund.** A decrease of \$2,230 in overhead reimbursements was approved to reflect the reduction of fleet staffing in the General Services Department. Additional descriptions regarding this change may be found in the Strategic Support CSA section of this document.

## GENERAL FUND REVENUE ESTIMATES

### Transfers & Reimbursements (Cont'd.)

#### Overhead Reimbursements (Cont'd.)

- **Water Utility Fund.** A decrease of \$23,391 in overhead reimbursements was approved to reflect the following changes: A Transportation Department reorganization to facilitate project delivery and streamline operations (down \$20,790); and Environmental Services Department operating efficiencies (down \$2,601). Additional descriptions regarding the changes may be found in the Environmental and Utility Services City Service Area section of this document.

#### Transfers

The 2004-2005 estimate of \$30.8 million reflects the following approved changes:

- A transfer of \$3.45 million from the Construction Excise Tax Fund as a part of the General Fund budget balancing strategy, resulting in the temporary suspension of a few Traffic Capital Improvement Program projects.
- A transfer of \$1.67 million from the Vehicle Maintenance Fund representing savings in fleet management and requisitions.
- A transfer of \$1.22 million from the Developer's In-Lieu Fee Fund. As a result of analysis of the Fund by the Public Works Department and the City Attorney's Office, \$1.22 million in pre-1989 interest earnings were approved to be transferred to the General Fund. All developer fees and related interest earnings received after January 1, 1989 are required under AB 1600, commonly known as the "Mitigation Fee Act", to be maintained in a separate account to be

utilized solely for the purpose for which the fee was collected.

- A transfer of \$700,000 from the Service Yards CIP fund balance for the proceeds from the sale of surplus properties that were transferred to the Housing Department in 1999-2000.
- A transfer of \$250,000 from the Construction and Conveyance Fund for Parks Maintenance.
- A transfer of \$225,000 from various Debt Service Funds representing increased interest earnings on lease revenue bond debt service reserve funds generated by the use of a consolidated investment agreement.
- A transfer of \$224,000 from the Lake Cunningham Fund representing a funding shift for regional parks maintenance.
- A transfer of \$66,489 from the Community Facility Revenue Fund for providing services related to protecting and safeguarding the Hayes Mansion assets.
- A transfer of \$50,000 from the Emma Prusch Memorial Park Improvement Fund representing a funding shift for regional parks maintenance.
- A transfer of \$23,391 from the Water Utility Fund for adjustments to the Municipal Water Rate of Return, offsetting overhead adjustments noted above. The impact of these two actions on the Water Utility Fund is net zero.

#### Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds.

## GENERAL FUND REVENUE ESTIMATES

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### **Transfers & Reimbursements (Cont'd.)**

#### **Reimbursements for Services (Cont'd.)**

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2004-2005, collections from this source are projected at \$17.0 million, reflecting flat growth over the 2003-2004

year-end estimate. This collection level assumes that increases in gas prices will result in no growth in consumption levels.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$124,000 and \$368,000, respectively.

## GENERAL FUND REVENUE ESTIMATES

### Fund Balance

|   |                      |
|---|----------------------|
| Unexpended/Rebudgeted Earmarked Reserves  | \$78,666,596         |
| Expenditure Rebudgets                     | 26,733,428           |
| Unexpended/Rebudgeted Contingency Reserve | 22,416,675           |
| Excess Revenue/Expenditure Savings        | 1,088,000            |
| Liquidation of Prior Year Encumbrances    | 1,200,000            |
| <b>Fund Balance Subtotal:</b>             | <b>\$130,104,699</b> |
| Reserve for Encumbrances                  | 26,194,965           |
| <b>Fund Balance Total:</b>                | <b>\$156,299,664</b> |

Estimates for both the unrestricted and restricted (reserves for encumbrances) portions of the 2003-2004 Ending Fund Balance/2004-2005 Beginning Fund Balance, totaling \$156.3 million, were included as part of the 2004-2005 Adopted Operating Budget. The estimate for the encumbrance reserve was set at the 2002-2003 actual level (\$26,194,965). The Adopted Budget included a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted portion of the fund balance was approved at \$130.1 million, representing a \$97.1 million total increase from the March Forecast level of \$33.0 million. When the Forecast was developed, the fund balance projection was for a total of \$10.0 million achieved through a combination of additional revenue, expenditure savings, and unexpended Earmarked Reserves; an unexpended Contingency Reserve estimate of \$22.0 million; and \$1.0 million from liquidation of prior year carryover encumbrances.

Since the release of the Forecast, however, changes of \$97.1 million were approved to reflect the following:

- Approval to rebudget \$45.6 million of Unexpended Earmarked Reserves, the liquidation of the 2004-2005 Future Deficit Reserve, (\$16.5 million); use of a portion of the Economic Uncertainty Reserve (\$5.4 million); use of a portion of the Salary & Benefit Reserve (\$465,000); use of a portion of the E-Government Applications Reserve (\$500,000); and use of a portion of the Planning Fee Reserve (\$152,242);
- Expenditure Rebudgets of \$26.7 million, the majority of which represent Capital and City-Wide projects that were not completed in 2003-2004;
- The approved transfer of \$1.088 million from the Construction and Conveyance Tax Fund in 2003-2004, reflecting higher than anticipated year-to-date collections;
- An unexpended Contingency Reserve rebudget (\$416,675); and
- An increase of \$200,000 to the estimate for liquidation of prior year carryover encumbrances, reflecting additional savings from the City Attorney's Office.